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DEMAND AND PRICE Situation



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CURRENT SERIAL RECORDS

Table 1.--Selected measures of economic activity

Item	Unit	1968				1969				1970				Year	
		IV	I	II	III	IV	I	II	III	I	II	I	II	1969	1969
Gross national product	Bil. dol.	891.4	907.6	923.7	942.6	951.7	959.5	970.1	931.4						
Disposable personal income	Bil. dol.	606.0	612.0	623.0	640.6	650.6	665.3	684.0	631.6						
Personal consumption expenditures	Bil. dol.	550.8	561.8	573.3	582.1	592.6	603.1	614.2	577.5						
Food spending (excluding alcoholic beverages)	Bil. dol.	101.3	103.0	104.4	105.8	108.2	111.8	113.0	105.3						
Implicit price deflator for GNP	1958=100	124.2	125.7	127.2	129.0	130.5	132.6	133.9	128.1						
Unemployment rate <u>2/</u>	Percent	3.4	3.4	3.5	3.6	3.6	4.2	4.8	3.5						
Cash receipts from farm marketings	Bil. dol.	45.4	46.5	47.4	47.4	47.6	49.0	49.0	47.2						
Farm production expenses	Bil. dol.	36.5	37.5	38.6	38.6	39.0	39.8	40.1	38.4						
Realized net farm income	Bil. dol.	15.9	16.2	16.0	16.2	16.2	16.5	16.1	16.2						
Agricultural exports <u>3/</u>	Bil. dol.	1.7	.9	1.7	1.4	1.9	1.6	1.7	5.9						
Agricultural imports <u>3/</u>	Bil. dol.	1.2	1.0	1.4	1.2	1.4	1.4	1.4	5.0						
Prices received by farmers <u>4/</u>	1957-59=100	108	110	114	115	116	120	116	114						
Livestock	do.	114	118	124	128	130	134	127	125						
Crops	do.	100	99	101	97	97	98	102	99						
Prices paid by farmers <u>4/</u> <u>5/</u>	do.	123	125	128	128	128	131	132	127						
Wholesale price index, all commodities <u>4/</u>	do.	109.5	111.2	112.6	113.4	114.6	116.3	116.8	113.0						
Consumer price index, all items <u>4/</u>	do.	123.3	124.8	126.9	128.7	130.5	132.5	134.6	127.7						
All food	do.	120.9	122.1	124.1	127.2	128.4	131.3	132.4	125.5						

1/ Preliminary. 2/ Unemployment as a percent of the civilian labor force. 3/ Actual values, not seasonally adjusted annual rates. 4/ Not seasonally adjusted. 5/ Including interest, taxes, and wage rates.

Departments of Agriculture, Commerce, and Labor.

THE DEMAND AND PRICE SITUATION

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Approved by

The Outlook and Situation Board

July 31, 1970

The summary of this report
was also released on the
above date

Principal contributors:

J. Dawson Ahalt

Meyer J. Harron

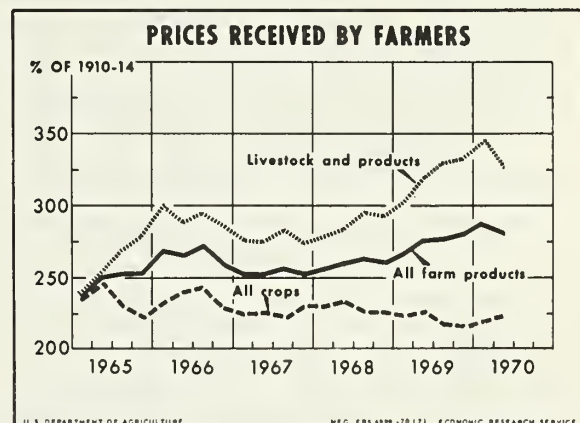
Economic and Statistical Analysis
Division, Economic Research Service
U.S. Department of Agriculture
Washington, D.C. 20250

The Demand and Price Situation
Published in February,
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SUMMARY

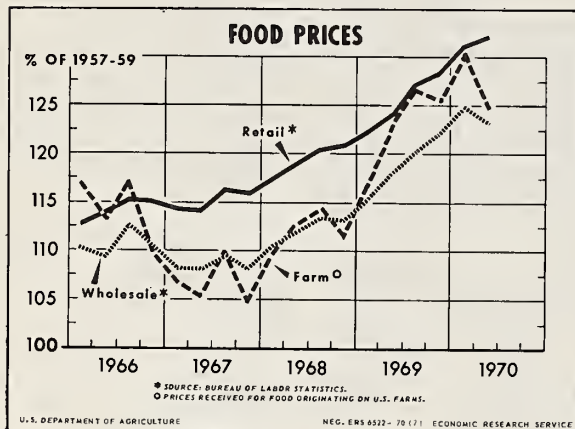
A greater volume of farm products is in prospect for the rest of the year. Leading the way, pork output in the fall may run a tenth or more larger than a year earlier. Poultry is expected to be in larger supply throughout the summer and fall, and egg production may run moderately above last year. A small gain in milk output also is in prospect. Moreover, supplies of fresh summer vegetables and many fruits will be seasonally larger. Beef output, however, may show only slight gains. Among the major crops, larger output is expected for feed grains and soybeans.

Primarily because of expected increases in marketings of livestock and products, prices for farm products will likely drift moderately below a year earlier by late 1970, despite strong demand. However, for the year as a whole, farmers' prices will probably average slightly above the 1969 level.



Consumer demand for farm products continues very strong, and may partially offset the price effect of increased output. But due to a slower rise in retail food prices and continued consumer caution, spending for food products may increase less rapidly. For the year, however, outlays for food and beverages are likely to advance substantially more than the 4% increase for 1969.

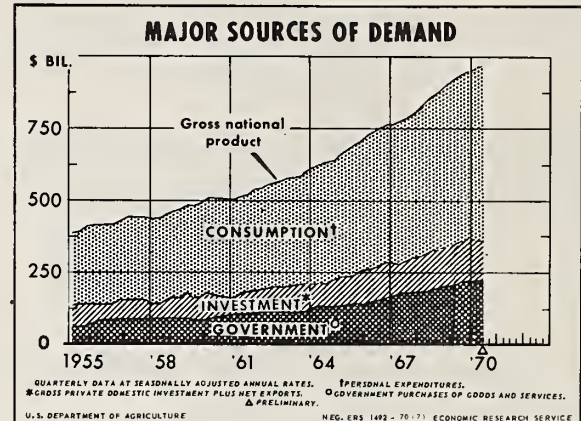
As supplies of food products continue to expand and the expected easing in inflationary pressures occurs, retail food prices may average in a narrow range during the rest of 1970 and decline more than seasonally in the fall. However, there were sharp increases in late 1969 and early 1970. Thus, retail food store prices will likely remain above last year, though the margin will continue to narrow. For the year as a whole, food store prices are expected to average $4\frac{1}{2}\%$ to 5% above 1969. This assumes in coming months that the spread between retail and farm prices, which has widened sharply this year, will level off and may narrow from a year earlier. Further price increases for food eaten away from home are expected the rest of the year, although at a somewhat slower pace than the close to 8% annual rate so far in 1970.



The outlook for exports of U.S. farm products during 1970/71 shows promise for a moderate increase. Exports of wheat are expected to expand moderately. Feed grain exports may show only a modest pickup from last year. Early-season prospects for cotton exports are favorable and the soybean export outlook is good. However, exports of rice and tobacco may edge lower.

The Nation's economy is expected to show a pickup during the second half. An improvement in sales of autos and other durable goods is expected as the least expensive models are promoted and inven-

tories reduced. Pent-up demand for housing may be partially satisfied as a result of more favorable financial conditions and special government programs to support housing. Because of generally smaller corporate profits and liquidity problems facing a few large corporations, expenditures for plant and equipment may increase only slightly in many industries.

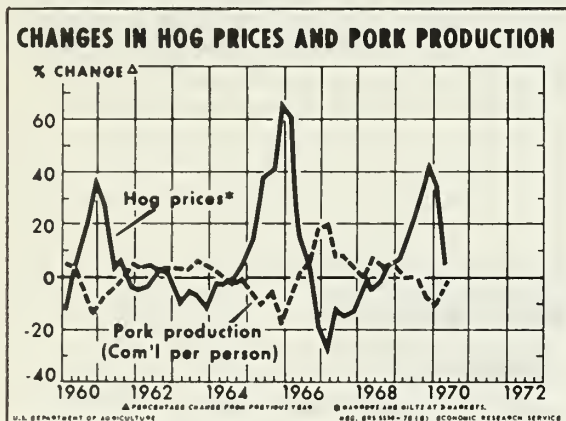


Further gains in after-tax incomes caused by rising wage rates and larger personal exemptions plus the expansionary effect of a developing Federal deficit will offset reduced expenditures for defense and slow the advance in the rate of inventory investment. Income gains are expected to support large increases in consumer spending, although these increases likely will be less than in 1968 and 1969.

Prospective developments in the agricultural and nonfarm economy suggest that farmers will realize net incomes in 1970 close to the \$16.2 billion of last year. Some easing in farm income in the second half may about offset earlier gains. Most of the downward pressure will be on livestock and livestock product prices. Thus, even though crop sales may run a little higher, the increase in total market receipts from a year earlier is expected to narrow. Total production outlays, however, are likely to continue to advance and offset expected gains in gross income.

...Outlook for major commodities...

...Hog marketings are expected to run moderately larger this summer, and by fall they may be up a tenth or more. Hog prices are now slightly below 1969 levels; later in the year they will be down significantly.



...Marketings of fed cattle will likely be slightly larger this summer and fall. Prices--currently close to last year--may continue steady to strong this summer, and ease some in the fall when competing supplies become larger...

...Sheep and lamb slaughter is expected to run below last year in the rest of 1970. Prices will likely average near midyear levels...

...Broiler output--up 13% so far this year--may show more moderate gains in the second half. Prices are expected to continue below a year earlier...

...Turkey output is expected to continue moderately larger in coming months. Producer prices may ease to near year-earlier levels...

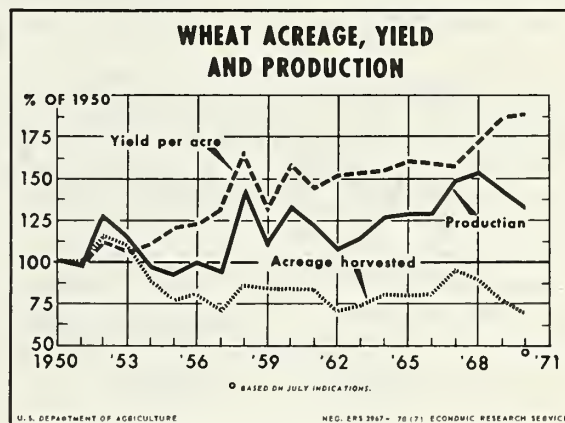
...Production prospects for eggs point to moderately larger output. Prices will likely continue to trail 1969 levels...

...Milk output in the second half may exceed 1969 rates. Larger output per

cow is expected to more than offset the slowing decline in cow numbers. Producer price increases are expected to moderate during the rest of 1970...

...Both supply and use of feed grains are expected to increase in 1970/71, giving another season of little change in carryover. Output is estimated 4% larger in 1970, and even though carry-in stocks are down, total supplies are slightly larger. Despite lower feed-price ratios in prospect, the larger number of animals will probably increase feed requirements this season; feed grain exports are also expected to be up slightly...

...The 1970 wheat crop is down 8% from last year, but total supplies are only slightly smaller because of the larger carryin. Wheat feeding may drop this season, but prospects for a moderate pickup in wheat exports point to only slight increases in carryover next July...



...A slight increase in soybean acreage, plus allowance for yield improvement, suggests the 1970 crop may be a little larger. But because of a smaller carryover, total 1970/71 supplies may be a little smaller. Soybean utilization will likely be up again...

...Cotton production and use are expected to be larger this season. A 2% increase in acreage with more nearly normal yields should increase output;

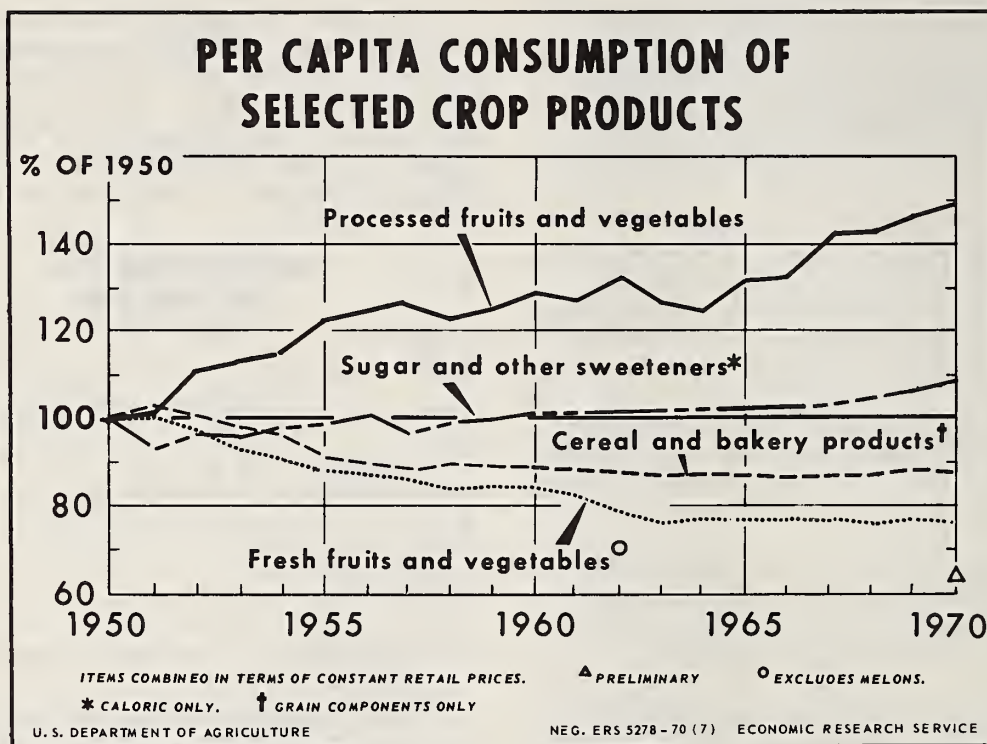
larger prospective exports and a pickup in domestic use should boost disappearance...

...Production of tobacco is estimated to drop slightly in 1970. Carryover stocks are also down, further reducing 1970/71 supplies. Use may outpace production, contributing to a further drop in carryover...

...Acreage of most processing vegetables is moderately smaller this season,

but processed supplies are generally adequate. Fresh vegetable output may be up slightly this summer, and prices will be around those of last year...

...Production of most noncitrus fruits in 1970 is expected to be down substantially from last year's large crop. However, because of processors' large carryin stocks, supplies are expected to be ample this season. Prices for most processed items are currently below last season.



AGRICULTURAL SITUATION

Prices for farm products drifted downward slightly during the second quarter in response to larger supplies of meats and poultry. Some seasonal price recovery occurred in July, but compared with a year earlier prices averaged only 2% higher. During the first quarter, however, they averaged 8% above a year earlier.

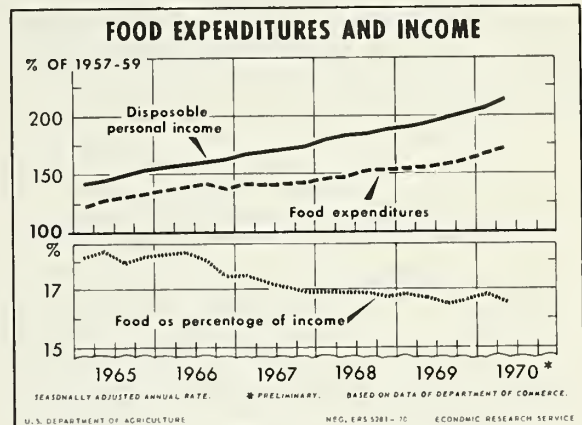
Prospects for larger supplies in the second half of 1970 point to some further easing in farm product prices, even though consumer demand is expected to continue strong. Indicated pork output in the fall may run a tenth or more larger than a year earlier. Production of poultry is expected to continue above 1969 throughout the year; egg output in the fall may run moderately above last year. A small gain in milk production is in prospect. Beef output may show only slight gains but producer prices for cattle late in the year will face increased competition. Production of fresh summer vegetables is slightly larger and supplies of many fruits will be seasonally heavy this summer and fall.

Prices for the major crops, however, may hold up fairly well, reflecting a tighter supply balance for several crops and price supports. Average prices for all farm products are expected to run moderately below a year earlier by the closing months of 1970, although for the year as a whole, they may slightly top the 1969 average.

Demand for Farm Products

Demand for farm products continued very strong in the second quarter as consumers' after-tax incomes climbed a record amount due to big retroactive social security benefit payments and the Federal pay increase. Even so, because of slower rises in some prices at retail--particularly food--and continued consumer caution, total consumer outlays advanced more slowly. Spending for food and farm related products registered a somewhat more moderate increase than in the previous few quarters.

Outlays for food and beverages increased at a seasonally adjusted \$1½ billion annual rate during April-June, compared with a \$4.2 billion jump during the first quarter. The smaller gain primarily reflected the second quarter deceleration in retail food prices. Compared with a year earlier expenditures for food and beverages averaged more than 8% higher.

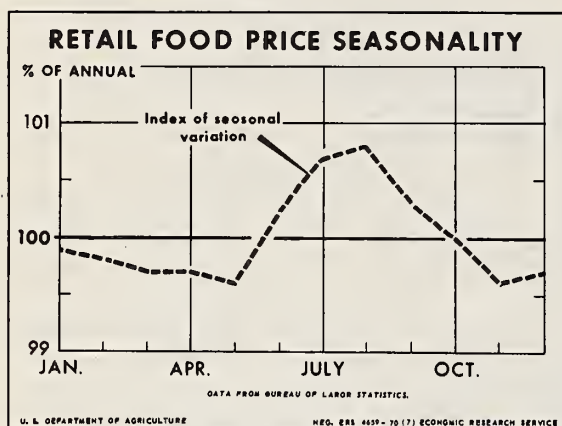


Gains in food and beverage spending have moderated somewhat in recent months and are expected to continue to slow in the second half of 1970 as food supplies generally become more plentiful and retail food prices level off. For the year, however, outlays are likely to advance considerably more than the 4% average increase for 1969 due to sharp price increases earlier this year and anticipated gains in purchased volume for the rest of 1970.

Food supplies have become more plentiful in recent months primarily because of expanding production of meats and broilers. For the whole year, per capita supplies are expected to average slightly larger than in 1969, although most of the gain will likely occur in the last half of 1970. Among the animal products, per capita supplies are likely to be larger for broilers, beef, and fish, while supplies of veal, lamb, and milk will probably continue to drift lower. The expected sharp pickup in pork supplies later this year will about equal per capita declines in early 1970. In the crop foods,

larger per capita consumption is expected for fresh and processed fruits, and vegetable oils. Declines are expected for vegetables, potatoes, and coffee.

Because of the pickup in supplies of food products in recent months, the increase in producer prices over a year earlier has narrowed. Accordingly, prices for food at retail have risen only slightly in recent months. As supplies continue to expand and inflationary pressures ease as expected, retail food store prices may move in a narrow range during the rest of the summer, with a more than seasonal decline in the fall.



However, because of the relatively high level of prices in the early months of the year, due to sharp increases in late 1969 and early 1970, retail food store prices will likely continue above last year, though the margin will narrow. For all of 1970, food prices at grocery stores are expected to average $4\frac{1}{2}$ to 5% above last year. This assumes that the spread between retail and farm prices, which has widened sharply this year, will level off and may narrow some from a year earlier. Prices for food eaten away from home are expected to continue to increase during the rest of the year although at somewhat slower rates.

Among the nonfoods, total outlays for clothing, shoes, tobacco, and other nondurables produced partly from farm-origin items increased very moderately in the second quarter. Sales of clothing, however, did accelerate, rising by nearly

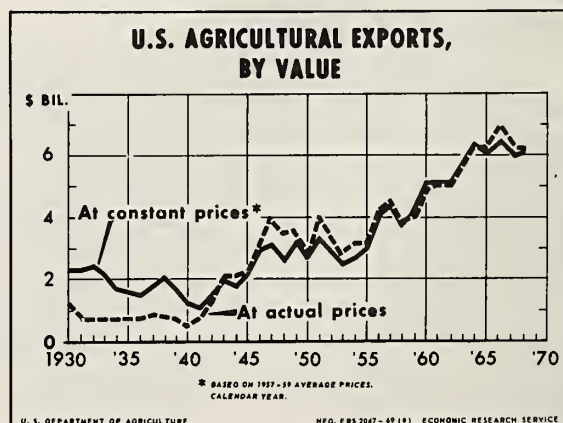
twice the first quarter advance. Compared with a year earlier, these second quarter outlays were up nearly 8%, most of which was due to higher prices.

Domestic use of livestock feed—which accounts for over 40% of crop output—has expanded moderately this season. In addition to increased use of feed grains, high protein feeding has also picked up to balance larger usage of grain concentrates. Moreover, wheat feeding has increased this year. Although livestock-feed price relationships will likely decline in the coming season, a larger number of animals is expected to boost total feed use.

Exports and Imports of Agricultural Products

Foreign marketings of U.S. farm products expanded substantially during the past year, due to gains in commercial dollar sales. U.S. farm product exports totaled \$6.6 billion for the fiscal year ended June 30, 1970. This is 16% above fiscal 1969 and only \$0.2 billion below the record \$6.8 billion for fiscal 1967.

Exports of soybeans and products were valued over \$1.5 billion for fiscal year 1970, up \$300 million from last year. These shipments accounted for the major part of the gain in farm exports. Grains and preparations also contributed largely to the overall pickup. Feed grains accounted for much of this increase with Japan being our major customer. Other gainers in fiscal 1970 were fruits, nuts,



vegetables, hides and skins, and animal fats. The marked improvement in exports over the previous year partly reflects the settlement of the longshoremen's strike which limited exports in early 1969.

Agricultural imports totaled a record \$5.5 billion in 1969/70, 11% larger than a year ago--due mainly to higher prices. Both supplementary (competitive) and complementary (noncompetitive) products contributed to the increase. Contributing to the increase in complementary products were coffee (due mainly to sharply higher prices), cocoa beans, crude rubber, and spices. Beef and veal, pork, dutiable cattle, sugar, vegetables, and wines accounted for most of the supplementary gain.

The U.S. agricultural trade balance (exports minus imports) showed a sharp rise over a year ago for fiscal year 1970. The gain, contrasting with the decrease in 1969's agricultural trade balance, was the largest yearly increase since 1964. The more favorable agricultural trade balance situation occurred primarily because of the sharp advance in the volume of exports which has been declining since 1967. The export jump more than compensated for the increase in imports, which have risen steadily since 1965.

U.S. agricultural trade balance,
fiscal years 1969 and 1970

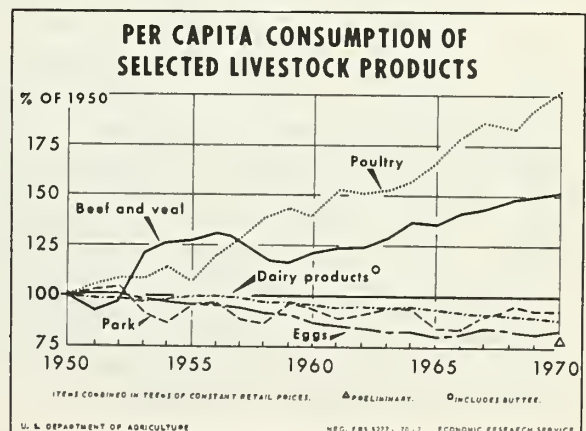
Item	: 1968/69	: 1969/70	: Per-
	: --Mil. dol. --		: change
			: Pct.
Exports	: 5,741	6,646	16
Imports	: 4,931	5,481	11
Trade balance	: 810	1,165	44

The outlook for U.S. exports of farm products during 1970/71 shows some promise for a moderate increase. Exports of wheat are expected to total 600 to 650

million bushels compared with 610 in 1969/70. Commercial sales will likely top last year's level, but wheat shipments under government programs remain highly uncertain. Feed grain exports may show only a modest pickup over 1969/70's 19 million tons. Europe's 1970 grain prospects are a little less favorable but U.S. export competition from Southern Hemisphere countries will continue keen. Early-season cotton export prospects also point to a moderate pickup. Exports of cotton should benefit from increased U.S. supplies, particularly of shorter staples. Prospects are also good for another year of heavy soybean exports in 1970/71. However, exports of rice and tobacco may decline.

Livestock Supply-Price Prospects

Supplies of livestock and products are becoming more plentiful as the year advances. During the first quarter, production ran close to a year earlier, but in April-June output edged ahead. Sharp increases in output of broilers and beef combined with a slight gain for milk, more than offset cutbacks for veal and lamb. Because of the pickup in supplies, prices for livestock and products declined from the first quarter peak. Even so, strong demand held average producer prices for livestock and products in the second quarter 2% above a year earlier. In June and July prices averaged slightly below last year, although they strengthened seasonally in July.



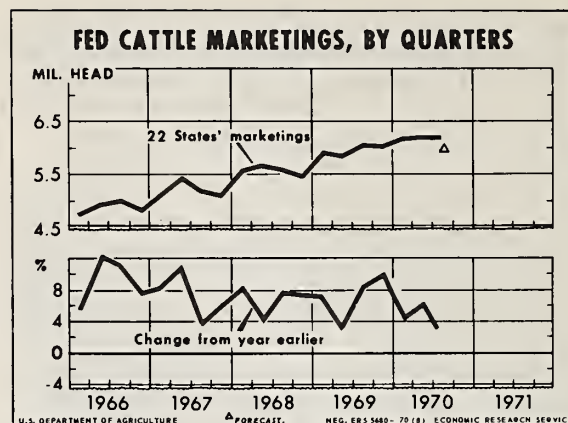
Production prospects for the rest of 1970 point to a continued pickup in supplies of livestock and products, with expected gains in hog slaughter leading the advance. Thus, despite continued strong consumer demand, producer prices will likely continue to move lower. However, for all of 1970 prices for livestock and products are expected to average slightly above year-earlier levels.

The large expected increase in hog slaughter this fall is in response to the sharp runup in hog-corn ratios in late 1969 and early 1970. Hog slaughter has been picking up relative to last year, and producer prices in recent months have dropped slightly below 1969 levels. Prices later in the year may drop more than seasonally, and average well below second half 1969.

Percentage change from a year
earlier in livestock-feed
price ratios

Year	: Beef : steer- : corn	: Hog- : corn	: Broiler- : feed	: Milk- : feed
1969/68:	:	:	:	:
I	: 3.7	2.3	6.5	5.4
II	: 9.7	7.4	0	3.1
III	: -5.0	9.6	5.9	0
IV	: -3.5	31.4	6.7	.5
1970/69:	:	:	:	:
I	: -1.2	31.5	-6.1	1.1
II	: -7.7	5.3	-12.1	1.8

Cattle feeders plan to market slightly more cattle this summer than last. Fall marketings may run about the same or only a little larger than a year earlier. Cattle prices--currently close to last year--may be steady to strong in coming months. However, by fall some easing may occur as supplies of nonfed beef increase and competition from expanding pork supplies intensifies.



Lamb and mutton production so far in 1970 has about matched first half 1969 output. But a drop is likely for the rest of the year because of the smaller 1970 lamb crop. Second half prices are expected to average about the same as a year earlier.

U.S. production of shorn wool is expected to total 162 million pounds grease basis in 1970. A slightly larger average fleece weight is partially offsetting a reduced number of sheep shorn. But total production will be down slightly from last year's 166 million pounds. Supplies of raw apparel wool also have been down as dutiable imports through the end of May were slightly smaller than a year earlier.

Broiler output has made substantial gains so far in 1970. However, a reduced rate of increase in chick placements and egg settings points to smaller production gains this summer. Moreover, prospects for an upsurge in hog slaughter later this year may induce broiler growers to moderate their production plans. Broiler prices have declined so far this year, and in late July were below last year. Further supply increases and the prospective surge in pork output are expected to hold prices for broilers under 1969 levels.

Turkey output has been up so far this year but reduced cold storage stocks have held total supplies under 1969 levels. Further output increases are in

prospect during the main marketing season but, with smaller stocks, total supplies may run only slightly larger. Producer prices may ease below year-earlier levels.

Moderate gains in egg output are expected in the second half of this year. The laying flock currently totals slightly larger and laying rates are expected to pickup in coming months. Egg prices dropped sharply during the winter and spring. Since May they have recovered some, but are still below a year earlier. Larger prospective output in coming months will likely continue to hold prices under a year ago.

Milk output has been up slightly this year. If cow numbers continue to decline at the current slow rate, in-

creasing output per cow is expected to hold second half production above 1969 levels. Prices for milk in the first half

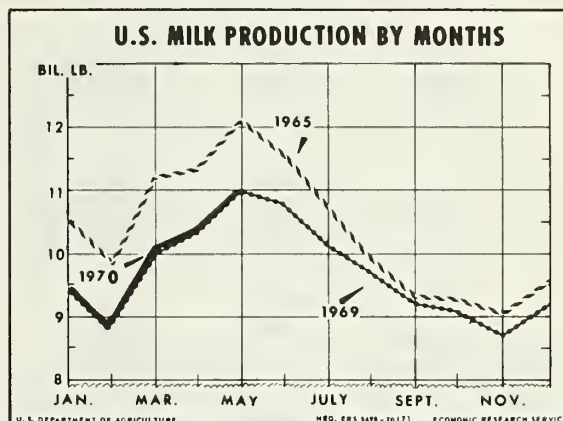


Table 2.--Production and prices received by farmers for major livestock and livestock products, 1967, 1968, 1969, and second quarters of 1969 and 1970

Item	Unit	Annual			Second quarter	
		1967	1968	1969	1969	1970 <u>1/</u>
<u>Production 2/</u>						
Cattle and calves	Mil. lb.	21,011	21,614	21,831	<u>3/5,170</u>	<u>3/5,459</u>
Hogs	Mil. lb.	12,581	13,063	12,953	<u>3/3,137</u>	<u>3/3,136</u>
Sheep and lambs	Mil. lb.	646	602	550	<u>3/134</u>	<u>3/138</u>
Chickens	Mil. lb.	7,527	7,580	8,059	<u>3/2,049</u>	<u>3/2,270</u>
Turkeys	Mil. lb.	1,883	1,620	1,618	<u>3/164</u>	<u>3/200</u>
Eggs	Mil. lb.	9,163	9,064	9,018	<u>2,317</u>	<u>2,315</u>
Milk	Bil. lb.	118.8	117.2	116.2	<u>4/32.1</u>	<u>4/32.1</u>
<u>Prices received by farmers</u>						
Cattle	Dol./cwt.	22.30	23.40	26.20	28.20	28.20
Hogs	Dol./cwt.	18.90	<u>5/18.50</u>	<u>5/22.20</u>	22.00	23.30
Lambs	Dol./cwt.	22.10	24.40	27.20	27.90	26.90
Broilers	Ct./lb.	13.3	14.2	15.2	15.4	13.6
Turkeys	Ct./lb.	19.6	20.5	22.4	20.5	24.0
Eggs	Ct./doz.	31.2	34.0	40.0	32.8	31.8
All milk (wholesale)	Dol./cwt.	5.01	5.24	5.46	5.15	5.40

1/ Preliminary. 2/ Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. 3/ Data for 48 States. Commercial slaughter only. 4/ Based on monthly data. 5/ Marketing year average--December-November.

Table 3.--Supply-distribution and season average prices of selected major crops, 1967/68, 1968/69, 1969/70, and 1970/71

Item	Unit	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
Feed grains										
1967/68	Mil. tons	37.1	0.3	176.0	213.4	141.8	23.3	165.1	48.3	2/1.03
1968/69 p.	Mil. tons	48.3	.3	168.9	217.5	149.1	18.4	167.5	50.0	2/1.08
1969/70 e.	Mil. tons	50.0	.3	174.2	224.5	158.5	19.0	177.5	47.0	2/1.12
1970/71 f.	Mil. tons	47.0	.3	182.0	229.3					
Wheat										
1967/68	Mil. bu.	425.0	.9	1,522.4	1,948.3	647.8	761.1	1,408.9	539.4	1.39
1968/69 p.	Mil. bu.	539.4	1.1	1,576.2	2,116.7	754.0	544.1	1,298.1	818.6	1.24
1969/70 e.	Mil. bu.	819	1	1,459	2,279	789	610	1,399	880	1.24
1970/71 f.	Mil. bu.	880	1	1,349	2,230	745	625	1,370	860	
Rice										
1967/68	Mil. cwt.	8.5	3/	89.4	97.9	4/34.2	56.9	91.1	6.8	4.97
1968/69 p.	Mil. cwt.	6.8	3/	104.1	110.9	4/38.5	56.2	94.7	16.2	5.00
1969/70 e.	Mil. cwt.	16.2	3/	91.3	107.5	36.5	56.9	93.4	14.1	4.92
1970/71 f.	Mil. cwt.	14.1	3/	81.7	95.8	36.5				
Soybeans										
1967/68	Mil. bu.	90.1	0	976.1	1,066.2	633.3	266.6	899.9	166.3	2.49
1968/69 p.	Mil. bu.	166.3	0	1,103.1	1,269.4	658.2	286.8	945.0	324.4	2.43
1969/70 e.	Mil. bu.	324.4	0	1,116.9	1,441.3	786	415	1,201	240	2.33
1970/71 f.	Mil. bu.	240	0	1,125	1,365					
Cotton 5/										
1967/68	Mil. bales	12.5	.1	7.2	19.9	9.0	4.2	13.2	6.4	25.59
1968/69 p.	Mil. bales	6.4	.1	11.0	17.5	8.2	2.7	11.0	6.5	22.15
1969/70 e.	Mil. bales	6.5	6/1	9.9	16.5	8.0	2.7	10.7	5.8	20.8
1970/71 f.	Mil. bales	5.8								

1/ Dollars per bushel, except cotton which is cents per pound. 2/ Price for corn. 3/ Less than 50,000 cwt. 4/ Includes the following statistical discrepancies: 1967/68, 0.6 and 1968/69, 2.8 mil. cwt. 5/ Production based on ginnings between August 1 and July 31. 6/ Includes city crop. p. Preliminary. e. Estimated. f. Forecast. 1970/71 based on planting intentions and July crop report. Details may not add to totals due to rounding.

averaged moderately higher than last year. The April 1 increase in the support level for manufacturing milk helped boost prices in the second quarter. Price increases in the second half will likely moderate, and by the closing months of the year prices may be a little above 1969 levels.

Supply-Price Prospects for Crops

As the new season gets underway, supplies of major crops for the 1970/71 marketing year appear in somewhat closer balance with prospective utilization. Total output is expected to expand slightly, but utilization--domestic and export--will also probably show a small gain for the season. Producer prices, supported partly by loan rates for major crops, will likely average somewhere around the 1969/70 marketing season.

Crop output is expected to increase slightly to a new record in 1970. Acreage planted for harvest totaled an estimated 300 million acres, up 1 million from the 1969 season. In addition, July 1 crop prospects were good in most areas. Currently larger crops are in prospect for feed grains, soybeans, and sugarcane. Food grain output is smaller this season, and production cutbacks are expected for tobacco, sugarbeets, non-citrus fruits, and vegetables for processing.

Feed grain supplies and use are expected to expand again in 1970/71, resulting in another year of close balance. Output was estimated in July to be 4% larger in 1970, and even though carryin stocks are down, total supplies would be a little larger. On the utilization side, livestock-feed price relationships may be less favorable for feeding but the increased number of animals points to another moderate pickup in feed use. Early indications are that foreign markets for feed grains may be only slightly improved over 1969/70. Producer prices are currently running about 3% above last season's levels; they are expected to be sensitive to changes in supply prospects and demand in coming months.

Harvested wheat acreage this season was the smallest since 1934. However, record-high yields resulted in a crop only 8% below last year's output. Because of a bigger carryover, 1970/71 supplies are down only slightly. Prospects for some decline in wheat feeding suggest that domestic use may trail last season's pace. However, the outlook for exports appears more promising, with commercial sales expected to exceed last year's 300 million bushels. Program shipments, however, continue highly uncertain. Early-season prospects point to a carryover next July at about this year's level.

Activity continues vigorous in soybean product markets. Although the expected increase in the soybean crush and exports during 1970/71 will not match the current season's gain, total disappearance will likely expand again. Total 1970/71 supplies are expected to be down because of a smaller carryin and only a slightly bigger crop. As a result, stocks at the end of the 1970/71 season will probably fall sharply again. Prices currently are substantially higher than last year because of exceptionally strong demand for soybean products this season. In coming months soybean prices will be largely influenced by new oilseed developments around the world.

The cotton outlook in 1970/71 points to increases in both production and use over last season's low levels. Assuming better yields this season, a 2% increase in planted acreage would boost output. At the same time, prospective pickup in exports and a larger domestic market should lift total use.

Tobacco output for 1970 is estimated slightly below last year's level. Carryover stocks are also down, giving a slightly reduced supply for 1970/71. Because prospective production may not match expected use, carryover may drop further by the end of the 1970/71 season. The 1970 crop of flue-cured tobacco is bringing slightly higher prices than a year earlier.

Acreage and output of most processing vegetables are down moderately again this season as the industry moves to bring supplies in closer balance with anticipated needs. Supplies should be adequate for most items. Total supplies of canned and frozen vegetables for 1970/71 are estimated to be off around a tenth. Prices are holding firm to strong, after having been depressed for two seasons.

Summer fresh vegetable output is estimated to be up slightly. There will be larger supplies of corn, lettuce, carrots, tomatoes, and snap beans, but less cabbage, celery, and early-summer onions. Prices are expected to average around those of last year.

Although this season's citrus crop was slightly larger, total production of noncitrus fruits in 1970 is expected to be down substantially from last year's large crop. Bigger expected crops of prunes and plums are the only major exceptions. However, because of large carryin stocks of processed deciduous fruits, supplies are expected to be ample this season. Prices for many processed items are currently running below last year.

Farm Income Picture

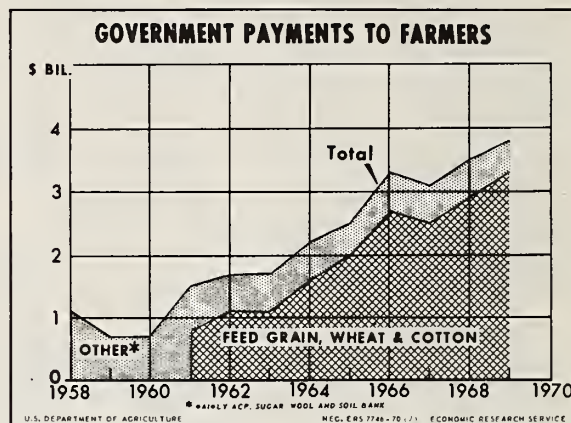
Cash receipts to many farmers have climbed to new highs in 1970. Moderately higher average prices and a slightly larger volume of farm marketings lifted cash receipts to a seasonally adjusted annual rate of \$49 billion in the first half. This was an increase of nearly 6% over the same period of 1969.

All of the gain in market receipts this year was earned by livestock producers. In the first half, receipts from livestock and product sales jumped nearly a tenth from the previous year. The upsurge was fueled by nearly 8% higher average prices combined with around a 1% advance in livestock and product marketings.

Crop receipts so far in 1970 are slightly behind the 1969 pace. Average

prices ran about the same, while the volume of crop marketings slipped a little.

Direct government payments to farmers have lagged in the first half of 1970, but will exceed year ago rates in the second half of the year. For the year as a whole, they may total moderately below 1969's \$3.8 billion.

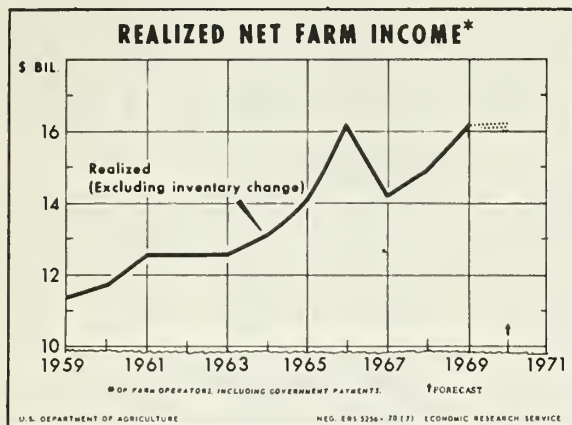


With cash receipts at a seasonally adjusted annual rate of \$49 billion in the first half, realized gross income was boosted to a rate of over \$56 billion, up \$2 billion from first half 1969. But spiraling production costs continued to cut away at farmers' net incomes. Thus, realized net income in the first half of the year was held to a rate of \$16.3 billion, up only \$200 million from the 1969 rate.

Farm income prospects appear less promising during the rest of the year. Big increases in red meat (particularly pork), poultry and egg supplies likely for the last half of 1970 indicate some easing in average producer prices for livestock and products. Thus, even if receipts from crop sales hold up fairly well, the increase in total cash receipts over a year earlier may narrow in the next few months.

Some easing in the advance in farm input costs may occur, although total production outlays are expected to continue upward. Accordingly, realized net farm income in the second half of 1970 may dip

slightly below a year earlier. Even so, for the year realized net farm income will likely total somewhere close to the \$16.2 billion of 1969.



Farm Input Costs

Prices paid by farmers for production items, interest, taxes, and wage rates averaged 4% higher for the first 6 months of the year. A decline in feeder livestock prices partially offset increases for taxes and wage rates.

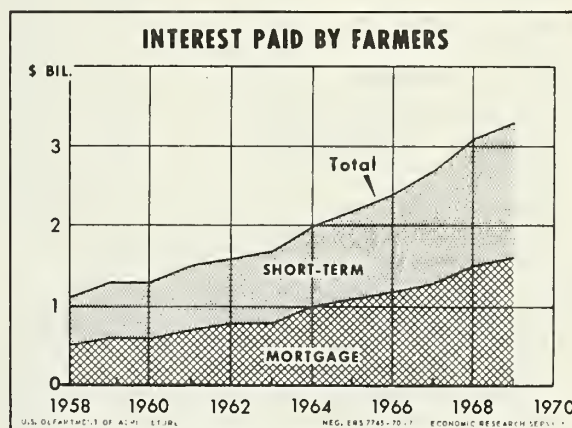
On July 1, 1970, the composite farm wage rate (a weighted average of all rates) rose to \$1.38 per hour, 7% over July 1969. Increases occurred in all farm regions with the largest gains reported in the South Atlantic, New England, and East South Central States.

The number of hired farm workers showed a 10% gain in June over the same period of 1969. Contributing to this upswing was much better weather, particularly in the North Central States where nearly half of the gain occurred, and a larger available supply of labor.

Early in the second quarter, prices paid for fertilizer reversed a long-term decline and moved 3% above a year earlier. This rise apparently resulted from attempts by fertilizer producers and marketers to restore some strength to de-

pressed prices. However, supplies are large relative to demand, and any sustained uptrend seems unlikely. Although final price data will not be available until fall, preliminary indications suggest that increases may have moderated late in the second quarter.

Retail sales of farm machinery and equipment continued depressed in the second quarter. Inflationary pressures, the high cost of credit, and a deferment until late summer of direct government payments have tended to dampen farmers' demand for capital inputs again this year. Prospects for recovery likely hinge on price improvements in the crop sector.



During May, retail tractor sales were down nearly a fourth from May 1969, according to Farm and Industrial Equipment Institute. Tractor dealers sold 14% fewer units in January-May 1970 than in the same period last year. Sales trailed a year ago in all size categories except the 80-89 hp. group, which increased sharply over the same period of 1969.

Farm machinery sales (excluding tractors) showed some improvement in May, but compared with a year-earlier sales continued depressed. Excluding large combines and corn heads, unit sales of most items are down from last year.

Table 4.--General economic activity

(Seasonally adjusted annual rates)

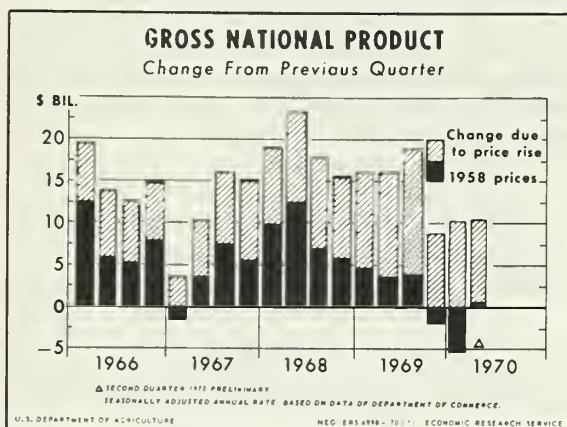
Item	1969		1970		Year	Year
	III	IV	I	II <u>1/</u>	1968	1969
- - - <u>Billion dollars</u> - - -						
Gross national product	942.6	951.7	959.5	970.1	865.0	931.4
Gross national product (1958 dollars)	730.9	729.2	723.8	724.3	707.2	727.1
Disposable personal income	640.6	650.6	665.3	684.0	591.2	631.6
Personal consumption expenditures	582.1	592.6	603.1	614.2	535.8	577.5
Durable	89.5	90.8	89.1	91.8	84.0	90.0
Nondurable	248.1	252.0	258.8	262.1	230.2	245.8
Services	244.5	249.8	255.2	260.2	221.6	241.6
Personal savings	42.0	41.1	44.8	52.1	40.4	37.6
Net government receipts	222.1	223.3	218.5	---	192.8	220.8
Government purchases	214.1	216.3	219.6	218.3	200.2	212.2
Federal	102.5	102.1	102.3	99.6	99.5	101.3
State and local	111.6	114.2	117.4	118.7	100.7	110.8
Deficit or surplus (on income and product accounts)	8.0	7.1	-1.2	---	-7.3	8.7
Gross private domestic in- vestment	143.8	140.2	133.2	133.8	126.5	139.8
Fixed investment	132.4	133.0	131.6	131.2	118.9	131.4
Residential	31.0	30.4	29.1	28.5	30.3	32.0
Nonresidential	101.5	102.6	102.6	102.7	88.7	99.3
Change in business inven- tories	11.3	7.2	1.6	2.6	7.6	8.5
Gross retained earnings	99.1	96.0	95.7	---	95.6	97.3
Excess of investment	-44.7	-44.2	-37.5	---	-31.0	-42.5
Net exports of goods and services	2.6	2.6	3.5	3.8	2.5	1.9
Per capita disposable per- sonal income (1958 dollars)	2,535	2,537	2,556	2,593	2,480	2,517
Total civilian employment (millions) <u>2/</u>	78.1	78.6	79.0	78.5	75.9	77.9

1/ Preliminary.2/ U.S. Department of Labor.

U.S. Department of Commerce.

GENERAL ECONOMIC SITUATION

The economy remains sluggish into the summer. Real output of goods and services declined in the first quarter and was virtually unchanged in the second. With reduced Federal defense outlays and business investment moderating, industrial production has edged steadily downward, capacity utilization rates have dropped sharply, and employment has fallen. General price increases have slowed somewhat, but cost pressures are still very strong as wage settlements become very large and industrial materials continue expensive.



In contrast to the general slowdown, consumer spending remains very strong as after-tax incomes surge. Inventory investment, which declined \$4 billion in the last quarter of 1969 and $5\frac{1}{2}$ billion in the first quarter of 1970, rose \$1 billion in the second quarter according to preliminary estimates by the Department of Commerce. And it appears that net exports are continuing a year long rise.

Outlook for 1970/71

Economic activity is expected to rise slightly throughout the remainder of this year. Barring significant labor troubles, a pickup in auto and other durable goods sales is expected as less expensive models and other lower priced items are featured and inventories are worked off. Demand for housing may be

GNP and final sales, change from previous quarter

Year	GNP	Final sales	Inventory change
			1/
		Bil. dol.	
1967: I	3.7	14.0	-10.3
II	10.1	15.2	-5.1
III	16.4	12.2	4.2
IV	15.0	13.7	1.3
1968: I	19.0	26.4	-7.4
II	23.2	15.5	7.8
III	17.7	19.8	-2.2
IV	15.6	14.5	1.1
1969: I	16.2	18.1	-1.9
II	16.1	15.7	.5
III	18.9	15.3	3.4
IV	9.1	13.3	-4.1
1970: I	7.8	13.4	-5.6
II 2/	10.6	9.6	1.0

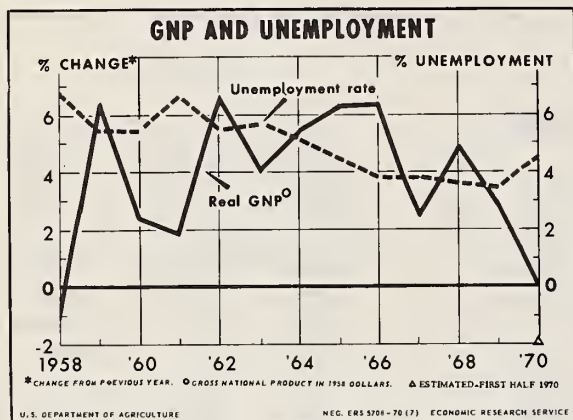
1/ Represents the difference in the rate of change in business inventories. For example, the change in business inventories in the second quarter of 1970 (\$2.6 billion) less the change in the first quarter of 1970 (\$1.6 billion) equals plus \$1.0 billion.

2/ Preliminary.

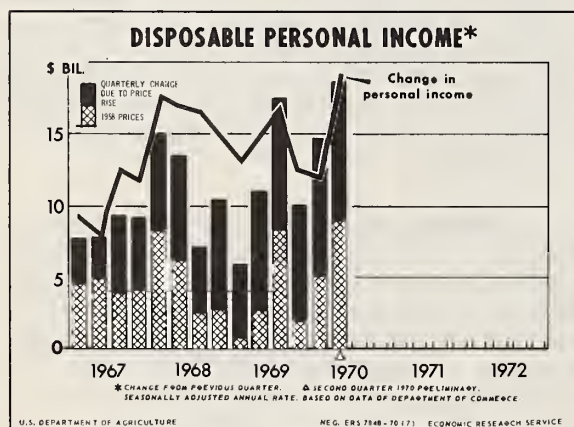
partially satisfied as a result of more favorable financing conditions and additional government support. Moreover, despite generally smaller corporate profits and liquidity problems facing a few large corporations, many industries may expand moderately their expenditures for plant and equipment.

Further gains in after-tax incomes caused by rising wage rates and larger personal exemptions plus the expansionary effect of a developing Federal deficit may offset reduced defense expenditures and low inventory accumulation. For 1970 as a whole, gross national product is expected to increase somewhere around \$50

billion compared with a nearly \$70 billion gain in 1969. Growth in real output for the year may hold to less than 1%, far below 1968 and 1969 advances and the Nation's potential required for full employment.



Looking into 1971, inflationary pressures will probably wind down further as productivity picks up, allowing somewhere around a 2½-3% gain in real output. Because disposable incomes may rise at a somewhat slower rate than in 1970, consumer spending, while still very substantial, may not be as dominant as it is this year. Economic support is likely to come mainly from fiscal policies which may permit larger public expenditures for environment, welfare, and housing programs. Business investment in inventories and plant and equipment will also help push



the gross national product well into the trillion dollar bracket; some improvement in exports and private housing is also likely.

Government Expenditures and Receipts

As part of its fiscal policy designed to slow inflationary pressures, the Federal Government reduced purchases of goods and services by nearly \$3 billion in the second quarter, compared with the previous 3 months. A large part of the decrease represented cuts in defense expenditures, although a number of domestic programs have been trimmed below last year's allocations. Vietnam troop withdrawals and delays of proposed weapon systems contributed to the Federal decline, underway for the past year and a half.

Federal receipts and expenditures, national income basis ^{1/}

Item	1969	1970
	First half	first half
	Second half	2/
RECEIPTS	199.8	201.4
Personal tax	95.5	96.2
Corporate profits:		
tax	40.0	38.4
Indirect business:		
tax	18.8	19.4
Social insurance	45.6	47.4
EXPENDITURES	188.4	194.2
Goods & services	100.4	102.3
Transfer payments	51.4	52.8
Grants to State &:		
local governments	19.4	20.9
Net interest paid	12.8	13.6
Subsidies less		
surplus	4.4	4.8
SURPLUS OR DEFICIT	11.4	7.2

^{1/} Calendar years in billions of dollars, seasonally adjusted annual rates.

^{2/} Preliminary.

^{3/} Estimated.

A slowing economy, lowered income taxes, and increased transfer payments caused a budget deficit in April-June 1970, and may do so in most of fiscal year 1971, despite the cut in Federal outlays. Corporate profit tax accruals, dropping sharply in the first quarter of calendar 1970, will likely sink a little lower although some second quarter corporate reports were brighter than anticipated. Personal tax receipts, including receipts for 1969 liabilities paid in April, maintained their first quarter level, but will drop substantially in the third quarter as the recent surtax terminated June 30.

Expenditures by State and local governments increased moderately, following a very large rise in the first quarter. For 1970, these outlays are expected to increase at a fairly rapid rate as many jurisdictions increased tax rates and accelerated efforts to curb crime and drug use and improve health and education facilities. But, largely dependent upon indirect business (sales) taxes and bond offerings, these governments could be particularly hurt by a continued economic slowdown and high interest rates. However, the prospects for increased Federal grants-in-aid are good as emphasis switches to local administration.

Investment Demand

Gross private domestic investment, a source of considerable strength in the 1968-69 expansion, increased only slightly in the second quarter. After dropping dramatically earlier this year, inventory investment rose slightly, overcoming a minute decrease in expenditures for residential structures. Business fixed investment remained level for the third consecutive quarter. These developments reflect reduced demand, a relatively restrictive monetary situation, rising labor and material costs, weaker corporate profits, and perhaps, equity losses in the stock markets.

A June increase in housing starts provided a happy note in the investment picture. This advance followed 13 monthly declines in the previous 16 months. As more funds flow into building and loan

Major GNP components, change from previous quarter

Item	1969	1970	
	IV qtr.	I qtr.	II qtr. 1/
		<u>Bil. dol.</u>	
Total change in GNP	9.1	7.8	10.6
Consumption	10.5	10.5	11.1
Private nonresidential fixed investment	1.1	0	.1
Housing	-.6	-1.3	-.6
Inventory 2/	-4.1	-5.6	1.0
Net exports	0	.9	.3
Government	2.2	3.3	-1.3

1/ Preliminary. 2/ See footnote 1/, text table, page 17.

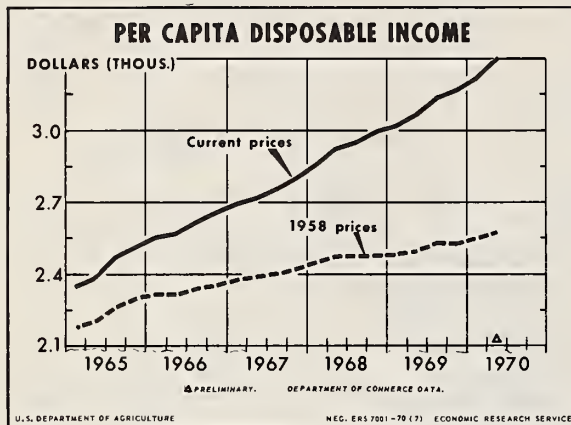
associations, and building permits remain fairly high, there is hope in the housing industry that starts may average 1.4 million this year. This would be below the average for 1969, but much higher than earlier estimates indicated.

Consumer Demand

Shoppers accelerated their spending in the second quarter, providing the bulk of the GNP expansion. Consumer expenditures increased \$11 billion, more than in any of the preceding 3 quarters. Spending on durable goods, which had fallen over \$1-3/4 billion in the first quarter, increased by \$2-3/4 billion, mainly due to a pickup in auto sales. This reversed the situation earlier this year in which a severe decline in car purchases caused reduced plant operations and unemployment as well as a rise in the price of used cars.

Nondurable goods purchases slowed to an increase of \$3 billion after a \$7 billion rise in the first quarter. Purchases of food and beverages rose \$1.5 billion after rising over \$4 billion in the previous quarter. Spending on services rose \$5 billion, continuing its steady upward

trend and now about matching the amount Americans spend on nondurables.



Income and Employment

Civilian employment, on a seasonally adjusted basis, declined in June for the third straight month to the lowest since last September. However, the labor force dropped even a larger amount, apparently reflecting discouragement caused by a slower economy among teenagers and marginal workers. Accordingly, the unemployment rate fell to 4.7% from 5.0% in May and the number of people unemployed dropped below 4 million.

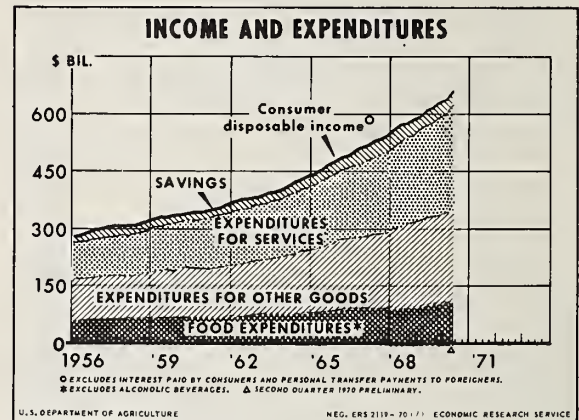
Comparisons with a year earlier delineate the degree the economy has slowed. The number of workers unemployed for over 15 weeks or more, for example, has increased from 385 thousand to 685 thousand. And the unemployment rate for blue collar workers rose to over 6% from slightly less than 4% last June.

Rising wage rates, large retroactive social security benefits, and retroactive wage payments to Federal military and civilian personnel boosted personal incomes a record \$19.2 billion in the second quarter. With income rising considerably more than even the rise in spending, the saving rate rose sharply from 6-3/4% in the first quarter to 7-1/2% in the second. This high saving rate (percent saving is of disposable income) could cushion purchasing power later in the year if labor disputes occur or unemployment grows.

Major personal income components, change from previous quarter

Item	1969	1970	
	IV qtr.	I qtr.	II qtr. 1/
	--- Bil. dol. ---		
Personal income	12.4	11.8	19.2
Wages and salaries	8.9	6.6	7.9
Manufacturing	1.1	-.1	-1.1
Nonmanufacturing	6.2	5.4	2.8
Government	1.6	1.2	6.3
Other income	2.5	2.9	2.1
Transfer payments	1.5	2.8	9.6
Social insurance			
payments (minus)	.4	.6	.3
Personal tax payments	2.4	-2.9	.5
Disposable personal			
income	10.0	14.7	18.7
Personal outlays	10.9	10.9	11.4
Personal savings	-.9	3.7	7.3

1/ Preliminary.



Prices

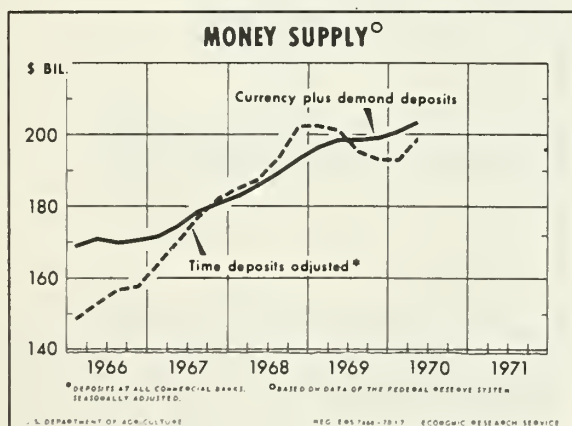
After remaining level in April, and rising only moderately in May and June, wholesale prices rose 0.5% in July. Industrial commodities increased slightly; farm products and processed foods strengthened seasonally. Although it accelerated in July, the Wholesale Price Index rise was still much slower than the rapid climb last fall.

The Consumer Price Index rose 0.4% in June, the same pace as May. The increase resulted primarily from higher prices for used cars, homes, and most types of consumer services. On a seasonally adjusted basis, commodity prices rose significantly less than in May, as food retail prices declined and the rates of increase in prices of both durables and nondurables other than food both slowed noticeably. The index for all items in June was 6% above a year ago.

The gross national product deflator, which measures price changes of final goods and services, decelerated to a rise of 4.1% in the second quarter. Although some of this deceleration was due to technical factors, it still represented a definite slowing of the general price level. If present fiscal and monetary policies succeed, this price deflator can be expected to slow more by year's end.

Monetary Situation

A slightly tighter monetary rein was evident in June after considerable relaxation in most of the first half. Increases in time deposits at commercial banks appeared to slow somewhat and some long-term interest rates have edged up although short-term interest rates have trended downward after a rise from April to May. Currency outside banks and demand deposits continued to rise in June, but less than in May.



In contrast to these developments, total bank credit rose in June with investments increasing. Borrowings at Reserve Banks picked up and total reserves of member banks declined. These movements reflect the improved position of the banks which can now pay higher interest rates on large deposits.

Foreign Trade

U.S. imports increased but exports rose faster, lengthening the steady improvement in our export balance which began in early 1968. Net exports (exports minus imports) of goods and services rose in the second quarter to a \$3.8 billion seasonally adjusted annual rate, reaching their highest point since 1967.

Prospects for 1970 exports appear good as domestic anti-inflationary measures prevail. Pressure remains strong in several domestic areas to counter non-tariff barriers abroad. But, as U.S. productivity improves, the trade losses abroad suffered by some of our industries will tend to be increasingly offset.

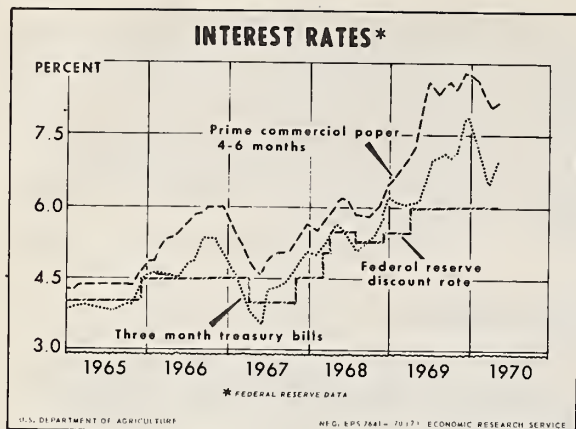
Major international transactions of the United States ^{1/}

(Billions of dollars,
seasonally adjusted annual rates)

Item	1969 IV qtr.	1970 I qtr. ^{2/}
Balance on goods and services	2.6	3.5
Transfers, personal and government	-1.2	-1.3
U.S. private and foreign capital	1.3	-3.0
U.S. Government grants and capital	-2.5	-3.9
Allocations of Special Drawing Rights	--	.9
Errors and omissions	.5	-1.3
Special financial transactions	.2	-1.1
Total (balance on liquidity basis)	.8	-6.2

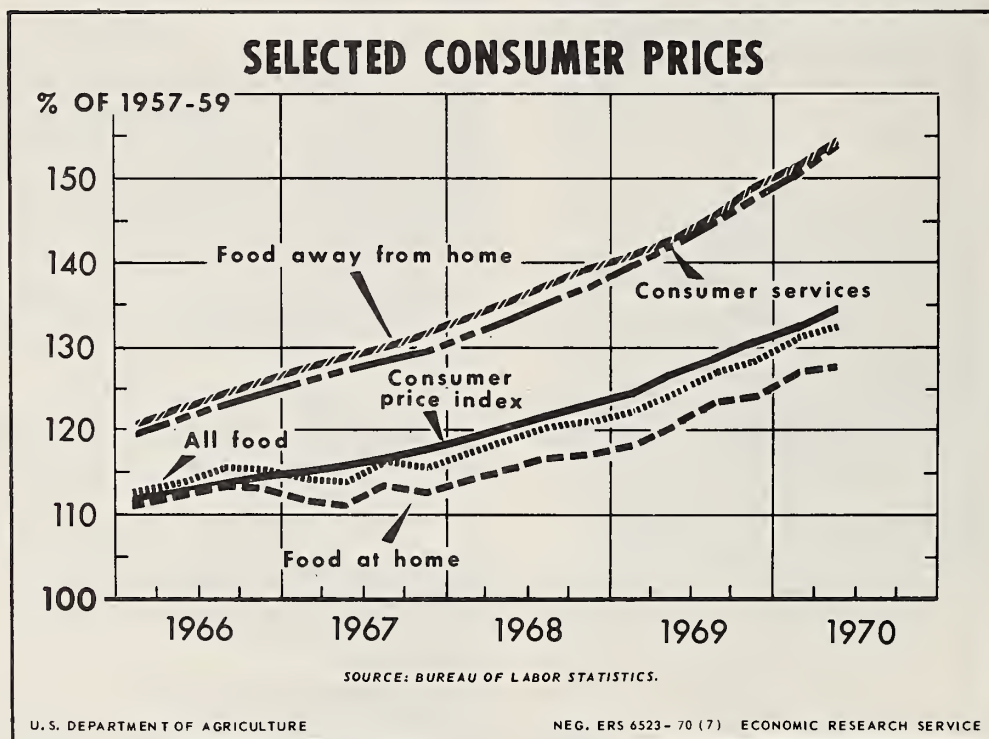
^{1/} Excluding military grant aid.

^{2/} Preliminary.



Balance of Payments

Despite the improvement in our trade situation, U.S. balance of payments (which measures capital flows as well as goods and services) took a turn for the worse in the first quarter. The liquidity balance was in deficit by over \$1.5 billion, seasonally adjusted, as private capital flows moved adversely. This represented a \$1.8 billion adverse swing from the \$211 million surplus in the fourth of 1969.



AGRICULTURAL PRICES IN THE SIXTIES

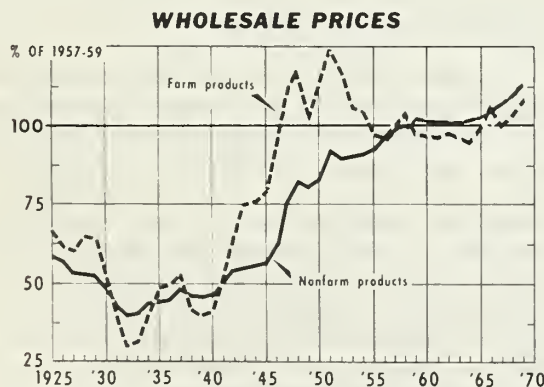
by

J. Dawson Ahalt

ABSTRACT: Rapidly rising prices in many sectors of the economy have been a major issue in recent years. Although prices for farm products increased considerably during the sixties, particularly in the second half, they advanced less than private nonfarm prices. Prices paid by farmers for production items climbed more sharply than nonfarm prices during the decade.

KEY WORDS: Supply, demand, farm product prices, input prices.

Prices for farm products rose considerably during the sixties, particularly in the decade's second half when most other prices were accelerating. However, unlike the persistent price uptrend in most sectors, prices for farm products fluctuated widely in response to changes in market forces. By the closing months of the decade, these prices averaged less than a fifth above 1957-59 levels, compared with a sharper price increase of around a fourth for the private nonfarm sector.



During the sixties most of the increase in farm product prices came from the livestock and products complex. In the second half of the decade, smaller gains in supplies, coupled with a substantial expansion in consumer demand and

a buildup in general inflationary pressures, increased livestock and product prices considerably. At the close of 1969, prices for livestock and products were running about a third above 1957-59 levels, while prices for crops were virtually unchanged.

Nature of Demand for Farm Products

Use of most farm products, particularly at farm and wholesale levels, tends to respond fairly slowly to changes in both prices and incomes. Generally, sizable variations in prices of products, prices of close substitutes and complements, or levels of consumer income are necessary to produce significant changes in the quantity purchased. Viewed from the concept of price determination, fluctuations in market supplies or consumer demand tend to cause proportionately wider swings in market prices of farm products. This characteristic of a more inelastic demand for farm products compared to nonfarm commodities implies that much larger relative adjustments in prices occur in response to changes in market supplies.

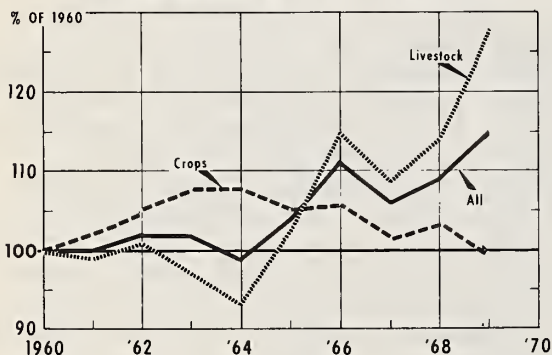
The Early Sixties

With this background, consider the behavior of farm product prices during the sixties. Although farm commodity prices have increased, they tend to do so

at a slower rate than prices for other items except during wartime or when inflationary pressures build up rapidly such as in the past few years. Somewhat lower relative prices for farm products reflect the tendency for growth in farm output to outpace the expansion in market outlets, particularly for crops. Increases in domestic markets for farm products are pretty well tied to population growth, which has slowed in recent years.

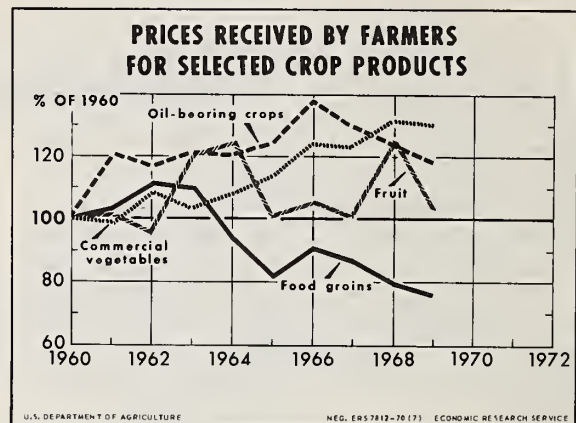
During the first half of the sixties, farm product prices showed little overall change as the expansion in output--particularly for livestock and products--exceeded growth in domestic markets. Real economic growth in the Nation's economy advanced at a rate of around $4\frac{1}{2}\%$ annually, and unemployment averaged 5.7% during 1960-64. Meanwhile after-tax incomes of consumers improved just a shade under 6% per year. But because of rapid output gains for livestock and products, especially in 1964, prices for farm products at the end of 1964 averaged below 1957-59 levels, while nonfarm private sector prices were up an average of 8%.

PRICES RECEIVED BY FARMERS



Prices for livestock and products were under downward pressure during the first half of the sixties, primarily because of big gains in red meat output. Sizable advances in pork production in 1963 and 1964 contributed to sharp declines in hog prices, while increases in beef production pushed cattle prices to their lowest levels in years. Prices for dairy products, poultry, and eggs held relatively steady during this period.

Producer prices for crops rose moderately during the early sixties as production was limited by government programs and large stocks were reduced. This price increase pretty much offset the decline in livestock and product prices. Most of the crop price advance came from higher average prices for grains and soybeans. These increases also reflected some healthy gains in U.S. farm product exports despite boosts in support price levels. In addition average prices for commercial vegetables trended upward gradually during 1960-64, and fruit prices rose considerably in 1963 and 1964 because of reduced citrus crops. Potato prices also turned sharply upward in late 1964 in response to a drop in output.



Second Half of the Sixties

In the mid-sixties, several important changes began taking place which would have major impacts on agriculture. Modifications were made in farm programs which reduced loan rates for several important commodities such as corn, wheat, and cotton in order to permit market prices to be closer to world levels. But expansion in domestic markets coupled with rapid growth in exports of farm products and a reduction in stocks of wheat and feed grains took some downward pressures off prices. Moreover, output of several major crops declined substantially in 1965 and 1966 because of poor weather. Reduced producer prices for hogs in 1963 and 1964 led to a sharp cutback in pork production, and beef output registered only a small gain in 1965.

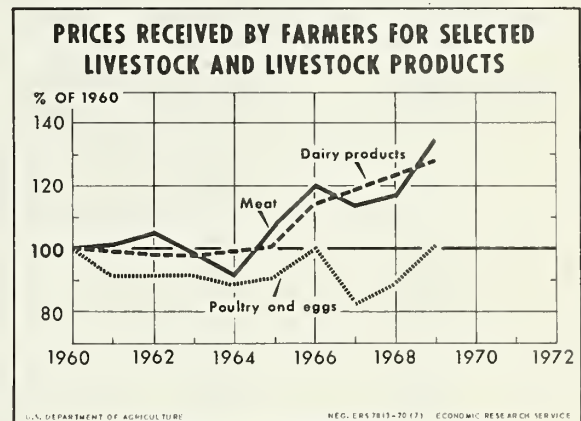
Meanwhile, several significant price-strengthening forces were developing on the demand side. A vigorous expansion in the private sector, already underway because of reduced taxes in 1964, was boosting employment levels and contributing to large gains in after-tax incomes. Unemployment rates in early 1965 dropped below 5% for the first time since the mid-fifties and averaged 3.8% during the second half of the decade. Disposable incomes began advancing at about 7½% annually, in contrast to average gains of less than 6% in the first half of the sixties.

Concurrently because of Vietnam, a rapid buildup in defense expenditures was taking place, including increased military purchases of food. As the number of available workers became scarce, wage demands accelerated and by mid-1966 inflationary price pressures were becoming evident. These factors, reinforced by a slower expansion in farm product supplies, turned farm product prices upward in early 1965. This recovery continued into 1966 and led to the highest level of farm prices since the Korean conflict some 15 years earlier.

But the rapid advance in farm product prices was shortlived, though dairy product prices continued to advance throughout 1966 because of tight supplies and an increase in dairy price supports. However, by mid-1966, production of pork was turning around, and output of beef, poultry, and eggs was picking up rapidly as a result of the runup in producer prices which began in 1965.

Moreover, because of the drawdown in grain stocks and concern about declines in world grain production, U.S. acreage planted to feed and food grains was increased moderately in 1967. The result was an expansion in farm output in 1967, the largest recorded for the decade. Because of this increase, prices for farm products continued to decline and for 1967 averaged 5% below the previous year's level. However, growing domestic and export markets again began to bolster market prices late in the year, even though supplies of crop and livestock products continued large throughout 1967.

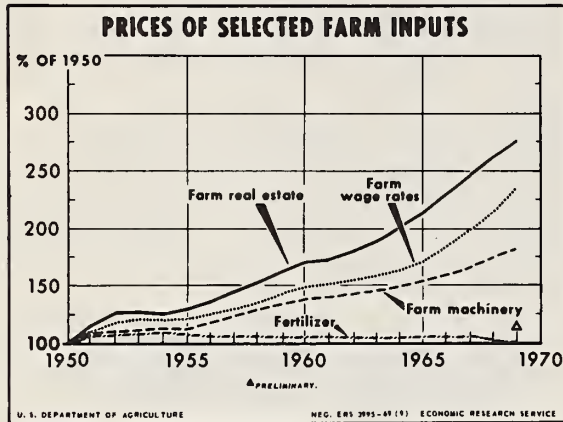
In the opening months of 1968, smaller gains in supplies, combined with rapid increases in consumer demand and renewed evidence of demand inflation, pushed prices for crop and livestock products once again above year-earlier levels. Throughout 1968 and 1969, production of beef expanded only modestly, and pork output turned down unexpectedly again in 1969. Although hog-corn price ratios were very favorable to hog producers, the recovery in pork output was slow in getting underway due to disease problems, etc. In addition, milk production declined. Poultry and egg production, which tends to respond fairly rapidly to changes in economic forces, declined in 1968 because of low prices in 1967. Output of turkey and eggs also lagged in 1969.



Because of the relatively tight supply situation for livestock and products, coupled with rapid increases in consumer demand, prices moved sharply higher in 1969--running in some months as much as 15% above a year earlier. This strengthening in livestock prices continued into the first quarter of 1970, although gains over a year earlier narrowed. Large supplies of grains and soybeans and the bigger fruit crop held average crop grower prices about unchanged. Even so, the average for all farm prices in the first quarter was up 8% from 1969 levels. Since then, the supply situation for livestock and products, including eggs, has eased slightly and prices have drifted lower. Although prices strengthened some seasonally in July, they averaged only 2% above a year earlier.

Farm Input Costs

Higher prices for farm products also tend to drive up farm costs. For example, nearly a third of all farm production outlays--purchases of feeder livestock, feed, and seed--actually originate on farms.



Thus, higher prices for one farmer's products imply higher costs for another producer's inputs. These ties are particularly strong in the feed-livestock sector.

Prices paid by farmers for production items (including interest, wages, and taxes) were running nearly a third above 1957-59 levels by year-end 1969. Increases in production costs accelerated in the late sixties, as prices for inputs produced in the nonfarm supply sector picked up in line with the acceleration in general price levels. Interest charges and taxes have accelerated sharply in recent years. Wage rates for hired labor, in response to tight labor markets and minimum wage laws, have also been significant contributors to the recent farm cost-price squeeze. The major exception to this sharp increase in farm input costs has been the decline, until recently, in fertilizer prices.

Index numbers of prices received by farmers, annual average by commodity groups, United States, 1960-69

(1957-59=100)

Year	All farm products	All crops	Food grains	Feed grains and hay	Feed grains	Cotton	Tobacco
1960	99	100	96	96	94	97	103
1961	99	102	99	95	94	100	109
1962	101	104	107	98	96	104	109
1963	100	107	106	104	102	104	102
1964	98	107	90	105	103	100	101
1965	103	104	77	110	108	94	106
1966	110	106	87	114	112	82	114
1967	105	101	84	110	108	73	114
1968	108	101	76	100	97	74	117
1969	114	99	73	105	102	67	122

Year	Oil-bearing crops	Fruit	Fruit for fresh market	Commercial vegetables	Commercial vegetables for fresh market	Potatoes, etc.
1960	93	110	111	98	99	125
1961	112	111	112	88	95	96
1962	108	105	104	105	109	96
1963	113	131	134	100	103	96
1964	112	138	140	105	110	141
1965	116	111	108	111	114	181
1966	128	116	113	121	127	122
1967	121	110	106	120	124	118
1968	115	139	138	128	136	124
1969	110	113	109	126	138	130

Year	Livestock and products	Meat animals	Dairy products	Poultry and eggs	Wool
1960	98	96	101	101	96
1961	98	97	101	92	94
1962	99	101	99	92	102
1963	95	94	99	92	109
1964	91	88	100	90	118
1965	101	104	102	92	106
1966	113	116	115	102	112
1967	107	109	119	84	91
1968	112	112	124	90	89
1969	125	130	129	103	92

Index numbers of prices paid by farmers,
United States, 1960-69

(1957-59=100)

Year	Parity index 2/	Production items 3/	Interest 4/	Taxes 4/	Wage rates 5/
1960	102	101	120	117	109
1961	103	101	131	125	110
1962	105	103	145	132	114
1963	107	104	162	139	116
1964	107	103	182	147	119
1965	110	105	206	156	125
1966	114	108	231	161	135
1967	117	109	255	175	146
1968	121	111	283	194	158
1969	127	116	311	213	174

1/ Includes sweetpotatoes and dry edible beans. 2/ Prices paid, interest, taxes, and wage rates. 3/ Including interest, taxes, and wage rates. 4/ Payable per acre. 5/ For hired farm labor. Simple average of quarterly indexes seasonally adjusted.

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